COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF ATMOS ENERGY CORPORATION FOR AN ORDER EXTENDING THE MARGIN LOSS RECOVERY MECHANISM FOR THREE (3) ADDITIONAL YEARS	))))	CASE NO. 2003-00305

O R D E R

On August 5, 2003, Atmos Energy Corporation ("Atmos") filed a request for approval to continue its pilot Margin Loss Recovery Mechanism ("MLR") for 3 years, through calendar year 2006. The MLR was initially approved on a pilot basis as part of the settlement in Atmos's (then Western Kentucky Gas) last general rate case, Case No. 1999-00070.[1] The MLR pertains to potential revenue losses that Atmos might incur from the 20 large industrial customers it serves via special contracts that include various rate discounts. The reasons for these contracts are the customers' proximity to interstate pipelines, the potential for customers to bypass Atmos and be served directly by a pipeline, and the potential loss of such loads to competing alternative fuels.

In response to this potential loss of load and the associated revenue loss, Atmos, like other gas distribution utilities, has offered reduced rates to retain these customers. However, because of the location of Atmos's customers relative to interstate pipelines in far western Kentucky, as well as the number and size of these customers, Atmos has a somewhat greater bypass risk than other gas distribution utilities in Kentucky. Atmos's

[1] Case No. 1999-00070, The Application of Western Kentucky Gas Company for an Adjustment of Rates, Order dated December 21, 1999.

average annual revenues from these customers for the past 3 years, exclusive of gas cost recovery revenues, was $1.8 million.[2]

Ordinarily, a gas distribution utility absorbs the revenue losses incurred under these circumstances until the time of its next general rate case. Under the MLR, if Atmos loses revenues as a result of bypass, alternative fuels, or rate discounting to avoid bypass or fuel switching, it will absorb 50 percent of the revenue loss while ratepayers absorb the other 50 percent.

Since the beginning of the MLR pilot, three of Atmos's special contracts expired, but were extended, as provided for in the contracts, on a year-to-year basis without further rate discounting. Of the remaining 17 contracts, one, with a customer that recently closed its facility, remains in effect; 14 are operating under initial terms extending beyond 2006 and, therefore, will not be subject to further rate discounting during the three-year extension period requested by Atmos; and two have initial terms that expire in 2006.

The three contracts that were extended on a year-to-year basis, the continuing contract with the customer that closed down,[3] and the two contracts that expire in 2006, combined, account for approximately one-third of the $1.8 million in revenues provided under Atmos's special contracts. No further discounting has occurred for the 20 special contract customers during the period the MLR pilot has been in effect. Likewise, Atmos

[2] Item 1(a) of Atmos's Response to the First Data Request of Commission Staff, dated October 8, 2003.

[3] The loss of revenue from a customer that closes or ceases to operate is not subject to the MLR.

has made no discounted rate arrangements with customers served at regular tariffed rates during this period of time.

Atmos states that the fact that no discounts have been increased and no new discounts implemented during the time the MLR has been in effect demonstrates that the existence of the MLR has not prompted it to unnecessarily deepen or broaden the application of rate discounts. Atmos states that continuing the MLR will be in the interests of both its customers and its shareholders, in that it is a measure meant to retain the maximum margins and revenues possible from “competitive load” customers.

SUMMARY

Based on Atmos’s application and data responses, the Commission finds that the requested extension of the MLR for 3 years, through 2006, is reasonable and should be approved. Although it lost some load temporarily during the MLR pilot period as a result of fuel switching when natural gas prices spiked, Atmos’s experience under the MLR indicates that the potential for bypass and long-term loss of load has waned in recent years. In addition, all special contracts under which Atmos serves its large industrial customers have received Commission approval, and any changes to the terms of those contracts would also require Commission approval. Furthermore, even if it were to lose 100 percent of the load subject to the MLR over the next 3 years (the worst case scenario under the proposed extension), ratepayers’ 50 percent share of the lost revenue, approximately $300,000, would have a de minimis impact on an average residential customer’s monthly bill.

IT IS THEREFORE ORDERED that:

1. Atmos's request to extend its MLR pilot for 3 additional years, through 2006, is approved.

2. Within 10 days from the date of this Order, Atmos shall file a revised MLR tariff that shows its date of issue, it was issued by authority of this Order, and is effective from January 1, 2004 through December 31, 2006.

Done at Frankfort, Kentucky, this 17th day of December, 2003.

By the Commission

ATTEST:

Thomas M. Dorman

Executive Director